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MEMORANDUM

Special Assessments on the Middle East Situation

ECONOMIC IMPACT ON JORDAN OF THE LOSS OF JERUSALEM OR WEST JORDAN

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CENTRAL INTELLIGENCE AGENCY
20 June 1967

Economic Impact on Jordan of the Loss of Jerusalem or West Jordan

Summary

The loss of only Jerusalem would reduce Jordan's tourist earnings by about $17 million a year without significantly reducing import requirements. Balance of payments difficulties or a forced reduction in imports would be the result, unless foreign aid were increased. The loss of West Jordan (including Jerusalem) would take away from Jordan about one third of its present gross domestic product. The loss of earnings from tourism, remittances from abroad, and exports, however, would be about offset by the elimination of the imports now going to West Jordan. Thus, East Jordan's economy and its ability to import need not be affected, if the UN continues to support refugees and foreign aid does not decline. Should Jordan have to support large numbers of refugees from its own resources without compensating increases in outside aid, economic development expenditures and personal consumption would have to be curtailed.

The Economy of Jordan

1. Jordan, somewhat larger in area than Indiana, is by and large an artificial political unit created as a British mandate after World War I to link British-controlled Iraq and British-controlled Palestine. It then included only the area now called East Jordan.* In 1946, the mandate was terminated, and the Kingdom of Transjordan was established. In 1950, West Jordan

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*East Jordan and West Jordan refer respectively to to the portions of Jordan east and west of the Jordan River. West Jordan is defined to include that part of Jerusalem remaining in Arab hands after the 1948-49 fighting.

formerly a part of the British Palestine mandate, was added and Transjordan became the Hashemite Kingdom of Jordan with its present boundaries.

2. In 1958, when US aid began, Jordan was given little chance of developing a self-sustaining economy. About 80 percent of its land was unproductive desert, and phosphate and potash were the only known minerals present in sizable quantities. It had little industry, few hotels, few paved roads, and an inadequate agricultural production relying almost entirely on uncertain rainfall. Food production fluctuated widely; the output of wheat in years of good rainfall was (and is) four times that of the driest years. In the light of this prognosis, Jordan's economy has done surprisingly well. After an initial period of confusion and lack of organization, it has experienced annual rates of growth averaging about 9 percent over the last eight years. By 1967, there was some prospect that it could eventually become self-sustaining.

3. In spite of its successes, the Jordanian economy still has a long way to go. Gross domestic product in 1966 was about $420 million. About 23 percent was provided by agriculture, about 21 percent by domestic trade, and only 11 percent by industry and mining. Agriculture employed well over half of the labor force, including part-time and seasonal employment. Although statistics are not available, Jordan is believed to have a large body of unemployed and underemployed workers. Its largest industrial facilities, including a cement plant, a petroleum refinery, phosphate mines, and about 60 percent of its small electric power capacity, are situated in East Jordan.

4. Jordan remains heavily dependent on imports for a number of essential commodities. All of its petroleum supplies (which make up nearly all of the fuel consumed), most of its cloth and clothing, and 60 percent of its caloric intake--chiefly in the form of wheat--must be imported. Imports normally exceed exports by four or five to one.

5. Jordan's ability to purchase these and other essential commodities has depended in large part on foreign exchange earnings from tourism, remittances from Jordanian nationals living abroad, and loans and other assistance from foreign countries and organizations. With these receipts, Jordan has been able to maintain a satisfactory balance of payments position. As of February 1967, it had gold and foreign exchange reserves of $181 million, adequate to cover 11 months of imports. In 1966, foreign exchange earnings from tourism and remittances were $61 million, or about 29 percent of a total of $211 million in foreign exchange receipts. Official foreign loans and grants received by Jordan accounted for about $75 million (including about $31 million from the US), exports for some $32 million, and other sources for the balance. The opportunity for development of export industries is limited in the short run. Over the longer run, the prospects for increasing exports of phosphate and cement are good, but increased production will require sizable additional investment.

The Economy of West Jordan

6. Although regional statistics on most economic aspects are lacking, probably 35 percent of the gross domestic product of Jordan, or some $150 million, is generated in West Jordan.* This income comes largely from a limited agriculture, many small plants and handicraft shops, domestic trade, and domestic services associated mainly with tourism. Before the current Arab-Israeli crisis, about 47 percent of the population lived in West Jordan, which was not able to support them. Out of a total of about 850,000 people, 487,000 were receiving some UNRWA relief, including perhaps 350,000 getting full rations. UNRWA is the only regular source of foreign aid for the West Bank since virtually all of the foreign loans and grants for projects received by Jordan were spent in East Jordan.

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*This percentage was derived by examining available statistics on such indicators as telephones, gasoline consumption, and municipal revenues.

7. In 1966, West Jordan accounted for about 30 percent of Jordan's cultivated land and a third of its agricultural output by value. Its principal agricultural products are olives, grapes, citrus fruits, vegetables, and a small amount of wheat. The best arable land is adjacent to the Israeli border; much of the land is unusable for crops and provides but poor pasture for sheep and goats. Industry is made up of very small establishments, using, with few exceptions, primitive hand techniques. Although some 65 percent of Jordan's industrial establishments are in West Jordan, they employ only about 45 percent of Jordan's industrial labor force. The principal products are olive oil, soap, flour, and a host of handicrafts produced for tourists and local use. Tourists are attracted by the great religious shrines at Jerusalem, Jericho, and Bethlehem, and some 600,000 are estimated to have visited West Jordan in 1966.

Economic Impact of the Loss of Jerusalem

8. The loss of Jerusalem would cost Jordan about $17 million per year in tourist earnings, representing about half of its total tourist earnings and some 8 percent of its foreign exchange receipts. In the short term, this loss could only be made up by increased foreign assistance. Since the crisis began, Jordan has been granted loans totalling $24.8 million by Saudi Arabia, Kuwait, the UAR, and Libya.

9. Other economic losses to Jordan would be minor. Some of the remittances from abroad probably go to people residing in Jerusalem, but the amount involved is very small. No agricultural output and very little industrial output would be lost.

Economic Impact of the Loss of West Jordan

10. The loss of West Jordan (including Jerusalem) would deprive Jordan of about one third of its present gross domestic product. Approximately $50 million in foreign exchange earnings from tourism, remittances, and exports would be lost, but this loss would be about offset by the elimination of imports now going

to West Jordan. Thus, the economy of East Jordan need not be affected, if it continues to receive foreign aid as before and if UNRWA continues to support Jordan's refugees, including the newly arrived.

11. The loss of West Jordan would probably cut tourist earnings by at least 75 percent, or about $25 million per year. Without West Jordan, Jordan's tourist attractions would be essentially limited to the ruins at Jerash and Petra. Remittances from Jordanians living abroad, most of them Palestinians, would probably be reduced by about 70 percent, or some $20 million a year. This assumes that the 100,000 Palestinians who fled to East Jordan during the crisis will remain there. West Jordan's export earnings, largely from olive oil, fruits, and vegetables, probably amount to no more than $5 million a year. West Jordan's imports are estimated to be on the order of $50 million annually, or about one fourth of total Jordanian imports in 1966.

12. There is only a small degree of interdependence between the economies of East and West Jordan. The only items that East Jordan now appears to import from West Jordan in significant quantities are soap and olive oil. The only significant exports from East Jordan to West Jordan are cement and refined petroleum products, but the excess capacity produced by the cessation of these exports would probably be temporary.

13. Should Jordan be forced to support the 100,000 new refugees from West Jordan, while UNRWA supported the rest, the cost would be from $2.5 to $3.5 million a year, not including housing. This would represent 3 to 4 percent of East Jordan's foreign exchange earnings, excluding foreign aid. In the event that UNRWA ceased supporting the refugees already in East Jordan, the total cost would be between $8 million and $9 million a year, or some 10 percent of foreign exchange earnings. Expenditures of this magnitude would force a substantial cut in economic development programs, and a diversion of foreign aid funds from development projects to balance of payments support.

14. Should a mass exodus of the population of West Jordan take place, say of 90 percent, Jordan would acquire an additional new refugee population of about 760,000, instead of the present 100,000. Caring for this number would require an outlay of some $20 to $25 million a year. If, under these circumstances, UNRWA stopped supporting the 220,000 already there, the total annual costs would be about $25 to $35 million a year. Clearly, a mass exodus of the size postulated is beyond Jordan's ability to handle without massive additional foreign assistance.